Consultation Response

European Commission's Proposal *(Proposal for a regulation – COM(2025)841)* to Amend the Sustainable Finance Disclosure Regulation ("SFDR 2.0")

Executive Summary

The **Bundesverband Alternative Investments e.V. (BAI)** welcomes the European Commission's proposal to revise the Sustainable Finance Disclosure Regulation (SFDR). **The Commission's efforts to streamline the regime, introduce a clearer product categorisation framework and reduce unnecessary administrative burdens are an important step forward, particularly with regard to the elimination of entity-level PAI reporting, product website requirements, and the focus on product categories (including the impact add-ons)** – see our overall assessment in the following section.

However, from the perspective of private markets and alternative investment managers, several targeted **adjustments are necessary to ensure that SFDR 2.0 is workable in practice and does not inadvertently disadvantage European private capital or limit its ability to support the EU's sustainability objectives**.

This response highlights key concerns and sets out concrete **amendments that would make SFDR 2.0 more suitable for the specific characteristics of private markets**, including:

- The need for a **more proportionate treatment of funds marketed exclusively to professional and comparable semi-professional investors**, reflecting their sophistication and bespoke information needs.
- **(At least) Essential amendments to Article 6a** to avoid unduly restrictive rules on sustainability-related disclosures for non-categorised products and to prevent "greenhushing".
- Modifications to product category criteria, in particular Article 8, to **properly recognise active ownership and engagement-based sustainability** strategies that are central to private markets.

- **More practical and proportionate rules on mandatory exclusions**, taking account of limited data availability, varying degrees of control and the illiquid nature of private assets.
- **Specific provisions for funds of funds** and other indirect investment structures, **including a tailored transition regime**, in view of their dependence on underlying fund data and categorisation.
- **Appropriate publication and transparency requirements for professional-investor-only funds**, avoiding unnecessary duplication with bespoke investor reporting.

Our recommendations aim to ensure that SFDR 2.0:

- **accommodates the full range of sustainable investment approaches used in private markets**,
- **supports innovation in sustainability and transition strategies**, and
- preserves **Europe's competitiveness in attracting global capital for the transition to a sustainable economy**.

Overall Assessment of the Proposal

We appreciate several positive elements in the Commission's proposal:

- **Grandfathering relief for closed-ended funds** (but cf. VII.) – This pragmatic approach recognizes the long-term, illiquid nature of private markets investments and avoids disruption to existing investor commitments.
- **Removal of entity-level PAI reporting** – The elimination of firm-level Principal Adverse Impact (PAI) disclosures significantly reduces administrative burdens without diminishing investor-relevant information. Investors invest in specific funds, not in fund managers as entities, making product-level disclosures more meaningful.
- **Flexibility in product-level PAI selection** (but cf. III.) – The ability for managers to define the most relevant PAI indicators at product level for sustainable and transition investments recognizes the diversity of investment strategies and asset classes.
- **Abolition of product website disclosures** – This streamlining measure reduces duplicative disclosure requirements.
- **Recognition of impact investing** – The alignment with generally accepted impact frameworks provides welcome clarity.
- **18-month implementation period** – The transition period is essential, though additional time should be granted to funds-of-funds which depend on underlying funds' prior implementation.
- **Removal of investment advice from scope** – This appropriately focuses SFDR on product-level disclosures.

Positive Assessment of the impact "add-ons": A particularly important innovation is the explicit anchoring and recognition of impact investing in Level 1. Financial products that qualify as transition (Article 7) or sustainable (Article 9) may be recognized as "sustainability-related financial products with impact", provided they have an objective of generating a pre-defined, positive and measurable social or environmental impact, supported by a theory of change and outcome reporting.

This reflects core market-tested features of impact investing – intentionality, measurability, impact management and impact reporting – and aligns closely with the principles articulated by the impact investing industry in recent years.[1] It sends a strong signal that "profit with impact" is fully compatible with the EU framework and that impact strategies are not a marketing niche, but a recognized and regulated sub-segment within the sustainable and transition product categories. However, significant concerns remain regarding the practical application of SFDR 2.0 to private markets and alternative investments: The "light is not green" specifically for the private markets sector. **The proposal was essentially designed for liquid markets, which is evident in three problem areas: exclusion rules that structurally disadvantage illiquid portfolios; thresholds that are virtually impossible to implement for blind-pool structures; and disclosure requirements based on listed-company data that simply do not exist for private companies.** Therefore, we detail this in the sections below.

I. Treatment of Professional Investor-Only Funds

Professional Investor Carve-Out or Exemption

Private markets funds are predominantly offered to professional and institutional investors. These sophisticated investors possess fundamentally different characteristics from retail investors:

- **Higher level of sophistication:** Professional investors in private markets typically include pension funds, sovereign wealth funds, endowments, and family offices with dedicated investment teams and significant resources for (ESG) due diligence.
- **Extensive independent due diligence:** These investors conduct comprehensive assessments of fund managers, strategies, and individual investments, often supported by specialist ESG consultants and advisors.
- **Bespoke information requirements:** Professional investors typically negotiate detailed Due Diligence Questionnaires (DDQs), Request for Proposals (RFPs), and ongoing (ESG) reporting that far exceed standardized regulatory disclosure requirements.
- **Direct engagement:** Unlike retail investors, professional investors maintain ongoing dialogue with fund managers, including detailed discussions of sustainability approaches and performance.

[1] Cf. Policy Paper from BAI and BVII from July 2025: Why impact investing should be recognised in the EU Sustainable Finance framework and how this could look like – Enabling the impact investing market in the EU and supporting market growth, innovation, and competition.

- **Reduced information asymmetry:** The combination of these factors substantially reduces the information asymmetries that SFDR is designed to address.

The UK Financial Conduct Authority's Sustainability Disclosure Requirements (SDR) regime, for instance, recognizes this distinction by applying only anti-greenwashing rules to products offered solely to professional investors, while more detailed requirements apply to products open to retail investors. This precedent demonstrates that differentiated treatment based on investor sophistication is both practical and appropriate.

It should be noted here that BAI is seeking a more appropriate and improved regulatory treatment within the EU regulatory framework as a whole, because professional investors are generally already sufficiently regulated and there is no information asymmetry. This applies not only to the SFDR, but also to the AIFMD, MiFID II, etc. We refer, for example, to our corresponding submissions in the context of the consultation on the "Savings & Investments Union – EU rules to foster market integration and efficient supervision".[2]

Benefits of Flexible Treatment for Professional Investor Funds

Avoiding unnecessary costs: Requiring extensive standardized disclosures for professional investors adds compliance costs without corresponding investor benefit, as these investors rely primarily on their own (ESG) due diligence and bespoke information requests.

Supporting innovation: Professional investor funds often pioneer innovative sustainability approaches that may not fit neatly into predefined categories. Flexibility in disclosure requirements allows managers to develop and communicate novel strategies without being constrained by rigid categorization criteria.

Maintaining global competitiveness: Many alternative fund managers raise capital globally from a single fund. Mandatory categorization under SFDR 2.0 could pose challenges in jurisdictions where sustainability investing is politically contentious. For example, mandatory exclusions of companies deriving 1% or more of revenue from coal and lignite may be unappealing to investors in certain US states, potentially decreasing demand for European alternative investment funds and disadvantaging European managers in global fundraising.

Preventing forced categorization: Current thresholds could force managers to choose between products with minimal sustainability characteristics (Article 6a) or significantly more sustainability integration (Article 8), with limited middle ground. This binary choice may not align with investor preferences and could lead to sub-optimal product design.

Recommended Solution

We recommend that the co-legislators introduce a specific carve-out or opt-in regime for Alternative Investment Funds that are marketed exclusively to professional investors and

[2] Cf. BAI feedback statement Savings & Investments Union – EU rules to foster market integration and efficient supervision, p. 2 ff. with regard to "Measures to Enhance Investments of Professional Investors" and "Client Categorization".

investors treated as semi-professional under applicable national law. In several Member States, such as Germany, fund regimes distinguish between retail investors and semi-professional investors in special AIFs under national law. These semi-professional investors are much closer to professional investors in terms of resources and due-diligence capabilities. The carve-out should therefore encompass both professional and semi-professional investors, while maintaining full protection for "normal" retail investors and consumers.

A simple way to implement this would be to add the following new paragraph to Article 6a:

"Article 6a(5) (new): The restrictions laid down in this Article shall not apply to Alternative Investment Funds that are marketed exclusively to professional investors within the meaning of Directive 2014/65/EU and to other investors that are treated as professional or semi-professional investors under applicable sectoral or national law, provided that they are not treated as retail clients under Directive 2014/65/EU."

Even if a full carve-out for such professional-investor-only funds is not adopted, it should at least be made clear that the restrictions on sustainability-related information and claims under Articles 6a and 13 do not apply to communications that are directed solely at professional or semi-professional investors, with the exception of the fund-name rules. This would allow managers to respond fully to professional investors' due diligence questionnaires and to provide bespoke sustainability reporting, while maintaining robust safeguards for retail investors.

It is important to underline that categorisation under Articles 7, 8 or 9 is not mandatory. Products under Article 6 and 6a may pursue highly ambitious sustainability approaches. However, minimum criteria, including mandatory exclusions, apply only to categorised products that make use of sustainability-related terms in their name or explicitly market themselves under a specific category. This distinction should be made explicit in the Level-1 text to avoid unintended disincentives for non-categorised funds.

Our proposed approach would maintain investor protection for retail-accessible products while recognizing the fundamentally different nature of (semi-)professional investor relationships in private markets. It should also be noted that the ESMA Fund Names Guidelines and the UK SDR already provide for a phased approach.

II. Critical Concerns Regarding Article 6a Restrictions

Even if a full professional investor carve-out (cf. I. above) is not adopted, Article 6a requires substantial amendment to ensure workability for private markets. At the end of this section, we suggest completely deleting Article 6a as an even simpler solution (recommendation II).

Overly Restrictive Sustainability Disclosures as a problem

Article 6a imposes severe restrictions on sustainability-related information for non-categorized products. Such information:

- Must not be a "central element" of pre-contractual disclosures (defined as secondary positioning, neutral tone, and limited to less than 10% of investment strategy description)
- Cannot be included in UCITS KIID or PRIIPs KID
- Must not constitute "claims" that would trigger product categorization
- Cannot include "sustainability-related claims" in fund names or marketing communications (Article 13(3)).

Unintended Consequences for Private Markets

Undermining Investor Information Rights

Professional investors in private markets routinely request detailed sustainability information as part of their (ESG) due diligence and ongoing monitoring. The current drafting of Article 6a could prevent managers from adequately responding to these investor inquiries, creating the following problems:

- **Inability to respond to RFPs and DDQs:** Professional investors' standard questionnaires often contain extensive sections on sustainability practices, policies, and performance. Managers may be unable to provide complete responses for non-categorized funds.
- **Restriction on voluntary sustainability reporting:** Many managers provide detailed sustainability reports to investors beyond regulatory requirements. Article 6a could be interpreted to prohibit such voluntary reporting for non-categorized funds.
- **Limitation on describing firm-wide responsible investment policies:** Managers may be prevented from describing their organization-wide approach to responsible investing if applied across both categorized and non-categorized funds.

Risk of Greenhushing

The severe restrictions under Article 13(3) could prohibit Article 6a funds from making any sustainability-related statements whatsoever, even in relation to sustainability risks (despite Article 3 requirements to publish information on sustainability risk integration). This creates a perverse incentive for managers to scale back public sustainability disclosures to avoid regulatory non-compliance – the opposite of the Commission's transparency objectives.

Private markets firms that implement meaningful sustainability practices but whose funds do not meet the specific thresholds for categorization would be unable to communicate these efforts, potentially resulting in:

- Reduced transparency for investors
- Decreased accountability for sustainability commitments
- Weakened market discipline on ESG practices.

- Disincentivizing Incremental Sustainability Improvements

The unclear boundary between Article 6a and Article 8 creates regulatory uncertainty. Article 8 requires funds to integrate sustainability factors "beyond the consideration of sustainability risks", but this threshold is ambiguous. Combined with Article 6a restrictions, managers may be discouraged from implementing incremental sustainability improvements in Article 6a funds due to:

- Fear that improvements could inadvertently trigger Article 8 classification, requiring full compliance with more stringent criteria
- Inability to communicate improvements to investors without violating Article 6a restrictions
- Uncertainty about what level of sustainability integration remains permissible for Article 6a products.

Preventing Partial Category Adoption

The restrictions may prevent managers from adopting elements of category criteria without full categorization. For example:

- A manager implementing transition investments as part (but not the majority) of a fund's strategy may wish to describe this element without adopting Article 7
- A fund applying certain exclusions without meeting all Article 8 criteria may be unable to communicate its exclusion policy
- Funds using innovative sustainability approaches that don't fit existing categories would be unable to describe their strategies.

Need for Clear Definitions and Guidance

Several fundamental concepts in Article 6a lack clarity:

- **"Considering sustainability factors":** The distinction between Article 6a (considering sustainability factors) and Article 8 (integrating sustainability factors beyond consideration of sustainability risks) is unclear. Without clear guidance, competent authorities may interpret these provisions inconsistently.
- **"Sustainability-related claims":** Article 13(3) prohibits such claims but does not clearly define whether this means only claims covered by Articles 7, 8, and 9, or any reference to sustainability whatsoever.
- **"Central element" restriction:** The 10% limitation based on "presentation of the financial product's investment strategy" is impractical. For private placement memoranda, the Article 23 AIFMD disclosure typically signposts the relevant section describing investment strategy, making it difficult to determine what constitutes the relevant 10% denominator.
- **Pre-contractual vs. marketing materials:** Read together, Articles 6a and 13(3) could be interpreted to limit sustainability information only to pre-contractual disclosures and prohibit it in other marketing materials, which would be unduly restrictive.

Recommended Solutions (I)

To ensure that Article 6a is workable in practice and does not create incentives for

"greenhushing", we propose the following targeted amendments:

- **Clarify scope for professional communications:** Make clear in the Level 1 text that the restrictions in Article 6a(1)-(3) and the prohibitions on sustainability-related claims in Articles 13(2)-(3) do not apply to information and reporting provided exclusively to professional and semi-professional investors, without prejudice to the rules on product names. This would allow managers to respond fully to professional investor due diligence inquiries and provide bespoke sustainability reporting.

- **EU-wide guidance on key concepts:** Empower the Commission, under Article 19b, to adopt delegated acts providing harmonised guidance on the notions of "considering sustainability factors" and "sustainability-related claims", including practical examples distinguishing between (i) disclosures limited to the integration of sustainability risks and (ii) promotional claims about sustainability characteristics or objectives.

- **Replace "central element" restriction with disclaimer:** Delete the quantitative "central element" limitation in Article 6a(1)(a) and instead require a prominent disclaimer in pre-contractual documents where a product includes sustainability-related information but does not qualify under Articles 7, 8, 9 or 9a(2). For example:
  "[Fund name] does not qualify as a sustainability-related financial product under the EU Sustainable Finance Disclosure Regulation (SFDR). It does not meet the requirements set out in Articles 7, 8, 9 or 9a for a 'transition', 'ESG basics', 'sustainable' or 'combined' financial product."

- **Permit voluntary sustainability reporting for Article 6 and 6a products:** Explicitly confirm that managers of products under Articles 6 and 6a may provide voluntary sustainability reports and other non-promotional information to investors, including on engagement activities and relevant indicators, without this automatically triggering product categorisation.

These amendments would preserve the integrity of the new categories: category labels such as "transition", "ESG basics" or "sustainable" should only be used where all applicable conditions are met, in particular the 70% threshold and the relevant exclusions. At the same time, non-categorised Article 6/6a products should remain free to apply individual elements of the criteria (e.g. certain exclusions or engagement approaches) and describe them factually, without being forced into a category or prohibited from communicating these elements.

We understand that the Commission's intention is to prevent products from being marketed as "transition", "ESG basics" or "sustainable" unless they fully meet the criteria of Articles 7, 8 or 9. However, the current drafting of Article 6a, read together with Article 13, risks being interpreted as a de facto ban on meaningful sustainability-related information for non-categorised products, even where they pursue credible ESG strategies. This would be disproportionate, especially for Article 6a funds that are required to describe how they consider sustainability factors. **The targeted amendments we propose (professional-investor carve-out, disclaimer-based approach, explicit permission for voluntary reporting) would preserve the integrity of the**

categories while preventing an overly restrictive "no marketing at all" outcome for non-categorised funds.

Recommended Solution (II)

Most recently, in its discussion paper of 12 March, the Council went to great lengths to include clarifications regarding Article 9a across some six pages. These proposals further reinforce our view that Article 9a is entirely unnecessary. On the contrary, **a clear simplification of the regulatory framework could be achieved by deleting the provisions and references relating to Article 9a, provided that categorised financial products are included in the list of investment assets under Articles 7, 8 and 9(2).**

We would therefore propose the deletion of Article 9a and the respective references thereto, and instead suggest the following additions *(in italics)* to Articles 7–9 and 12a. Accompanied by adequate transitional provisions, fund of funds or MOPs structures could thus also be readily integrated into the categorisation system of Articles 7–9.

Art. 7(2)
(f) investments pursuant to Article 9(2) *or investments in sustainability-related financial products claiming to meet the conditions of Articles 7 or 9* in combination with any of those referred to in points (a) to (e);
(h) other investments in undertakings, economic activities or other assets *including investment options offered as part of a PRIIP as referred to in Article 10 of Commission Delegated Regulation (EU) 2017/65* that credibly contribute to the transition provided proper justification is included in the disclosures required pursuant to paragraph 3.

Art. 8(2)
(d) a combination of investments pursuant to Article 7(2) or Article 9(2) *or investments in sustainability-related financial products claiming to meet the conditions of Articles 7, 8 or 9* ~~of this Regulation~~ and the investments referred to in points (a), (b) and (c) of this paragraph;
(e) other investments integrating sustainability factors beyond the consideration of sustainability risks *including investment options offered as part of a PRIIP as referred to in Article 10 of Commission Delegated Regulation (EU) 2017/65*, provided proper justification is included in the disclosures required pursuant to paragraph 3.

Art. 9(2)
(h) investments in sustainability-related financial products claiming to meet the conditions of Article 9 in combination with any investments pursuant to this paragraph (2)

Art. 12a
(c) may rely on the information disclosed by other financial market participants in relation to their investments in, or exposure to, financial products categorised in accordance with Articles 7 to 9 without further formalized and documented arrangements.

III. PAI Reporting/Product-level PAI selection

BAI supports removing mandatory PAI statements on the entity-level based on Art. 4 SFDR. It will significantly reduce regulatory burden. We understand that some investors may want to

voluntarily continue disclosing PAIs on their websites. In particular, some AIFMs, life insurers and pension funds might be interested in (some) PAI disclosures. SFDR should allow such disclosures without triggering any additional requirements.

While PAI disclosures on the entity-level are ineffective, we received feedback from regulated institutional investors that they will still require ESG indicators including some PAI KPIs for their portfolio and risk management, product design, reporting amongst other purposes. We suggest to define a minimum set of PAIs with clear definitions on Level 2. In particular, such PAIs should include the following:

- Absolute GHG emissions and carbon footprint Scope 1,2,3;
- Share of investments in companies active in the fossil fuel sector;
- Share of investments in investee companies involved in the manufacture or selling of controversial/prohibeted weapons;
- Share of investments in real estate assets involved in the extraction, storage;
- Share of investments in energy-inefficient real estate assets.

It is worth mentioning that regulated asset owners will typically request such PAIs from all fund types, including Art. 6 and Art. 6a SFDR 2.0 funds. Therefore, SFDR 2.0 should enable Art. 6 and 6a funds disclosing PAIs on request of regulated asset owners without triggering any other SFDR requirements such as potential (de facto) mandatory reclassifications to Art. 8 SFDR 2.0 or other mandatory disclosures (cf. above I.).

IV. Suitability of Product Category Criteria for Private Markets

Article 8 'ESG Basics' Category

- Inadequate Recognition of Active Ownership Strategies

The types of investments listed in Article 8(2)(a)-(e) are too narrow and fail to capture the distinctive sustainability approaches employed in private markets. The current criteria focus on "best-in-class" approaches designed for liquid, publicly traded securities but do not recognize that private capital managers primarily drive sustainability improvements through active ownership and engagement.

Infrastructure, real estate, private equity, venture capital, and private credit strategies across the private capital spectrum (including buyout, growth equity, secondaries, and special situations) employ active engagement as a core sustainability strategy. This typically involves:

- Board representation and governance rights
- Controlling or substantial minority equity stakes enabling strategic influence
- Implementation of ESG improvement plans and sustainability KPIs
- Direct involvement in operational and strategic decisions
- Multi-year value creation plans incorporating sustainability objectives.

Article 7 appropriately captures engagement strategies for funds predominantly investing in transition assets. However, Article 8 should similarly recognize sustainability-related

engagement for the broader category of investments beyond transition. This is fundamental to how private capital drives positive change.

Voluntary engagement for ESG Basics: The ESG Basics (Article 8) category should also explicitly mention sustainability-related engagement strategies as a possible approach to fulfilling the sustainability features criterion. This would further incentivize active ownership across all categorized products.

- Inappropriate Category Name?

The term "ESG Basics" is unsuitable for private markets funds for several reasons:

- **Global market dynamics:** The term "ESG" is increasingly controversial in certain jurisdictions, particularly some US states where legislation or executive actions prohibit or discourage investment in products using ESG terminology. Since many European fund managers raise capital globally, use of this term could materially limit fundraising capacity and disadvantage European managers competitively.
- **Misleading connotations:** The word "Basics" does not reflect the substantial requirements of Article 8 or the high ambitions of many products in this category. It undermines the marketing value of the category and could be misleading to investors regarding the extent of sustainability integration required.
- **Alternative terminology:** "Sustainability Integration" or "Sustainability Consideration" would better reflect the category's focus and distinguishing features while avoiding controversial terminology.

- Recommended Amendments to Article 8 ("ESG Basics")

To reflect the **central role of active ownership and engagement in private markets**, we recommend that Article 8(2) be amended to explicitly include engagement based strategies:

"(e) investments that are accompanied by a clearly defined, positive sustainability-related engagement strategy, including through a controlling or substantial minority equity stake or board representation, with time bound objectives and measurable key performance indicators."

As the label "ESG Basics" is not well suited for global private markets products, the term "ESG" has become politically contentious in some jurisdictions, and the word "Basics" understates the substantive requirements of Article 8, **we therefore suggest renaming the category to "Sustainability Integration" or, alternatively, "Sustainability Consideration", which more accurately reflects the nature of this category and improves the international marketability of EU products without lowering the underlying standards.**

Article 7 'Transition' Category

The Commission's proposal treats sustainability-related engagement as a voluntary add-on to the approaches eligible under the Transition category (Article 7). From a private markets perspective, active engagement is often the primary mechanism through which managers drive real-world sustainability improvements. Engagement should be made a mandatory core

requirement for Transition products, applicable to a minimum proportion of the portfolio (in terms of number of companies or percentage of AuM), where relevant given the asset class.

This should be subject to the following conditions:

- **Asset class suitability**: Any mandatory engagement requirement must only apply where relevant given the asset class and investment approach. For private credit strategies, where managers typically have limited governance rights, a best-efforts standard should apply.

- **Definition of "credible engagement"**: The concept of a "credible sustainability-related engagement strategy" must be defined in the revised SFDR delegated act or via dedicated guidance. For PE/VC for instance, credible engagement typically involves formalized ESG improvement programs with the portfolio company, backed by governance rights (e.g., board seats or observer rights), measurable time-bound targets, and escalation mechanisms. These criteria differ from listed-equity engagement and should be defined accordingly.

70% Threshold in Eligible Investments

BAI supports the EU Commission's proposal of a uniform **70%** threshold in eligible core investments as a meaningful but workable standard: While ambitious, the threshold is compatible with alternative asset/private market strategies that require ramp-up periods, especially when phase-in rules and recognized exclusions for hedging and liquidity management are applied.

Nevertheless, the following points and questions should be addressed (probably at Level 2):

Unresolved Treatment of Shorts and Derivatives

SFDR 2.0 does not explicitly address the **treatment of short positions or derivative instruments** with regard to meeting the minimum 70% investment alignment thresholds under Articles 7, 8, and 9. This gap is particularly significant for alternative investment managers whose strategies routinely employ short positions etc.

Treatment of Hedging and Investments for Liquidity Purposes

Instruments held primarily for hedging purposes, efficient portfolio management, or liquidity management should be excludable from the 70% minimum alignment calculation. This reflects current market practice and avoids penalizing funds for prudent risk management activities. For products mandated by sector-specific rules to maintain certain liquidity investments (e.g., ELTIFs), a broad interpretation of liquidity – covering more than just cash and cash equivalents – should be applied, with all such instruments excluded from the 70% threshold in recognition of their necessity for regulatory compliance.

NAV vs. Invested Capital Basis

Level 2 measures should clarify whether the 70% threshold should be expressed as a percentage

of invested capital (investment exposure) or of Net Asset Value (NAV), as this distinction has material implications for leveraged strategies.

- Activity Method vs. Company Method

Under SFDR 1.0, it is possible to calculate sustainable investments either at the economic activity *(Activity Method)* or investment level *(Company Method)*. To promote harmonization and improve comparability between financial products, SFDR 2.0 should clearly specify, for all categories, whether and to what extent the 70% threshold may be calculated using the Activity Method or the Company Method. We support providing financial market participants with the flexibility to choose the appropriate method, subject to adequate transparency and disclosure. However, in light of experience with regard to sustainable investments under SFDR 1.0, we encourage considering the introduction of minimum underlying thresholds for the use of the Company Method (e.g., based on revenue or CapEx). Otherwise, financial market participants with, for example, very low sustainability-related revenues could fully count their investments towards the 70% threshold, creating an imbalance with those following the stricter Activity Method.

- Sovereign Debt in Transition and Sustainable Categories

The Commission's proposal excludes general-purpose sovereign debt from counting towards the minimum investment threshold for the Transition (Article 7) and Sustainable (Article 9) categories, citing the absence of "comprehensive metrics for gauging the sustainability" of sovereign debt (Recital 22). While we understand the integrity concerns motivating this approach, the exclusion does not accurately reflect current market reality and practice, and risks placing unfair restrictions on product design and investor choice.

In practice, a growing body of established frameworks exists for assessing the ESG and transition alignment of sovereign issuers, including internal methodologies developed by investment managers and external frameworks recognized by the Platform on Sustainable Finance. Sovereign issuers also play a critical enabling role in creating the policy and regulatory environment within which companies operate. SFDR should incentivize sovereign issuers to promote sustainable policy environments rather than inadvertently excluding them from sustainable finance products.

We recommend the following approach to sovereign debt:

- **Limit labelled issuance requirements to 'impact' subcategories only**: Use-of-proceeds requirements for sovereign instruments should be confined to the "with impact" subcategories of Articles 7 and 9, where demonstrable additionality is required. General-purpose sovereign debt should be permissible in all other instances within the Transition and Sustainable categories.

- **Recognition of sustainability-linked sovereign instruments**: Sustainability-Linked

Bonds (SLBs) and Debt-for-Nature swaps issued by public bodies should explicitly count towards the minimum alignment threshold in the Transition and Sustainable categories, recognizing their role in incentivizing sovereign issuers towards sustainability objectives.

- **Guidance on sovereign sustainability assessment methodologies**: Level 2 measures or dedicated ESMA guidelines should establish criteria for recognized methodologies to assess the sustainability of sovereign instruments (e.g., based on indicators such as the Climate Change Performance Index, Corruption Perception Index, or equivalent), ensuring comparability without mandating a single approach.

Regardless of how sovereign bonds and cash are treated from a sustainability perspective: **It should in any case be made clear that if sovereign bonds and cash are not included in the numerator, they should also not be included in the denominator for the counting of the minimum investments threshold.**

Mandatory Exclusions Across All Categories

Challenges of Applying Exclusions in Private Markets

While we accept that mandatory exclusions help streamline requirements for sustainability-related products, their application raises significant practical challenges for private markets:

- **Limited data availability:** Unlike public companies, private companies often lack readily available ESG data. Revenue breakdowns by product line or activity may not be publicly disclosed, and portfolio companies (particularly smaller businesses, early-stage ventures, or infrastructure projects) may have limited sustainability reporting sophistication.
- **Varying degrees of control:** Private market strategies differ substantially in their degree of control and influence:
  - Buyout funds typically have controlling stakes and board control
  - Growth equity and minority positions have limited governance rights
  - Private credit strategies have minimal control beyond contractual covenants
  - Funds of funds have no direct control over underlying portfolio companies.
- **Illiquidity constraints:** Unlike liquid strategies, private markets managers cannot quickly divest investments if exclusion criteria are breached after the initial acquisition. Private investments typically involve multi-year holding periods, and forced sales would likely be at substantial discounts, harming investor returns.
- **Passive breaches:** Changes at the portfolio company level after acquisition may result in breaches of exclusions outside the manager's control. For example:
  - A portfolio company may acquire another business that derives revenue from excluded activities
  - Business model pivots may inadvertently introduce excluded activities
  - Supply chain changes may create indirect links to excluded sectors.

Investment exclusion requirements for future funds classified as "transition", "ESG basics" or "sustainable" under SFDR 2.0 are rather written for liquid strategies. Private market investors can

(and should!) apply them at the time of investment, but need rules to handle potential passive violations during the investment phase.

- Specific Exclusion Concerns

UNGC/OECD Guidelines violation exclusion (Articles 7(1)(c), 8(1)(c), 9(1)(c)):

We acknowledge that the mere reference to Article 12(1)(c) of Delegated Regulation (EU) 2020/1818 does not, in itself, require a benchmark administrator to make a formal determination of UNGC/OECD violations. Nevertheless, importing this provision from the Benchmarks Regulation is conceptually confusing and not well aligned with private markets practice, where managers typically carry out their own assessments. We therefore recommend replacing the cross-reference with a stand-alone SFDR definition of UNGC principles and OECD Guidelines violations that is suitable for all relevant asset classes and can be operationalised with available data, ideally aligned with ESRS datapoints.

Coal and lignite exclusion (Articles 7(1)(b), 8(1)(b), 9(1)(c)):

The 1% revenue threshold for hard coal/lignite activities (Article 12(1)(d) of the Benchmarks Regulation) is particularly problematic:

- **Conflicts with transition finance objectives:** Many transition infrastructure projects involve "brown-to-green" energy generation. Funds focusing on financing the energy transition may need to invest in companies currently deriving some revenue from fossil fuels but committed to transitioning to renewable energy. The 1% threshold is too restrictive for genuine transition finance.
- **Exceeds ESMA Fund Names Guidelines:** The ESMA Guidelines applied this exclusion only to funds using environmental, impact, or sustainability-related terms, but not to funds using transition, social, or governance terms. Extending it to Article 7 (Transition) funds contradicts the spirit of supporting transition investments.
- **Practical materiality concerns:** For diversified industrial companies or financial institutions, a 1% threshold may capture incidental or immaterial activities. A concept of materiality would be more appropriate, particularly for financial institutions providing limited financing to fossil fuels.

In sum and as currently drafted, Articles 7(1)(b) and 8(1)(b) cross-refer to Article 12(1)(a)–(d) of Delegated Regulation (EU) 2020/1818, thereby importing the 1% revenue threshold for hard coal and lignite. This results in a very far-reaching exclusion of companies involved in coal and lignite, irrespective of credible transition plans, and goes beyond what may be appropriate for genuine transition and basic sustainability products.

We recognise that the current cross-reference to Article 12(1)(d) of the Benchmarks Regulation aligns Article 9 products with the PAB exclusion standard. However, applying the same very strict threshold to all “transition” and “ESG basics” products under Articles 7 and 8 may not be appropriate and could hinder genuine transition strategies. A more proportionate approach would be to maintain PAB-level exclusions for products with explicit “impact” or “sustainable”

objectives, while allowing a slightly less restrictive, CTB-like standard for transition-oriented and basic integration products, combined with robust transparency.

Investors in the insurance sector have told us that currently almost no insurance company meets the 1% threshold, for example. **The practical consequence is that, as a result, almost no insurance company would be able to qualify for the transition or sustainable categories at all. This, in turn, is the necessary prerequisite for even accessing the "impact add-on" for these categories, since it is, after all, an "add-on" built upon these categories.** In plain language: Insurance investors – as one of the most important institutional investor group for impact investing in and through private markets – would be effectively excluded from impact investing from the outset by adhering to this 1% threshold. But that cannot be the consequence of this requirement.

- Recommended Solutions for Exclusions

We recommend four amendments:

1. Best efforts standard: Amend Articles 7(1)(b)(c), 8(1)(b)(c), and 9(1)(b)(c) to permit financial market participants to apply exclusions on a best efforts basis. This would require managers to disclose:

- How they will assess compliance with exclusions based on available information
- What actions they will take to address breaches, considering:
  - The manager's awareness of the breach
  - Available powers and influence
  - Materiality of the violation
  - Asset class characteristics (e.g., credit strategies have limited control).

2. Passive breach treatment: Add a recital clarifying that for financial products investing in illiquid assets, changes at investment level after acquisition which are (i) outside the manager's control and (ii) lead to breach of mandatory exclusions ("passive exclusion breaches") do not disqualify the product from its category, provided the manager uses best efforts to address and remedy the breach. This recognizes that immediate divestment is often impossible or detrimental to investor interests in private markets.

3. Direct UNGC/OECD definition: Replace the reference to Article 12(1)(c) of the Benchmarks Regulation in Articles 7(1)(c), 8(1)(c), and 9(1)(c) with a direct definition of UNGC principles and OECD Guidelines violations appropriate for SFDR, eliminating the confusing reference to benchmark administrators.

4. Remove coal/lignite exclusion from Articles 7 and 8: Delete the exclusion in Articles 7(1)(b) and 8(1)(b) relating to Article 12(1)(d) of the Benchmarks Regulation (1% revenues from hard coal/lignite). This exclusion is incompatible with genuine transition finance and exceeds the scope of the ESMA Fund Names Guidelines. Alternatively, if retained, introduce a materiality threshold for financial institutions and explicitly exclude this criterion from applying to use-of-proceeds bonds supporting transition projects.

V. Funds of Funds and Indirect Investment Structures

Private markets funds of funds and similar indirect investment structures face unique challenges under SFDR 2.0 that require specific accommodation.

Challenges for Funds of Funds

Limited visibility and control: Funds of funds make indirect investments through acquiring interests in underlying funds (as primary investors or on secondary markets). They face significant challenges:

- No direct control over portfolio companies held by underlying funds
- Dependency on underlying fund managers' due diligence and reporting
- Varying levels of information access depending on fund terms and vintage
- Look-through to portfolio company data often impossible or impractical.

Exclusion compliance difficulties: Under Articles 7, 8, and 9, applying mandatory exclusion criteria at the portfolio company level would be extremely challenging for funds of funds due to limited control and information access about underlying portfolio companies.

Blind pool allocation uncertainty: Article 9a requires funds of funds to disclose at launch the relative share of underlying products under Articles 7, 8, and 9. This is impractical because:

- Blind pool funds cannot determine at launch how many target funds will qualify under each category
- Target fund categorization may change during the fund of fund's investment period
- The only option would be not to categorize, even if 70%+ of investments ultimately qualify as Article 7, 8, or 9 funds
- This could severely restrict sustainability claims for funds of funds despite genuine sustainability commitments.

Recommended Solutions for Funds of Funds

1. Flexible exclusion application: Clarify that funds of funds should observe exclusions on a best efforts basis, considering their limited access to information about and control over underlying fund portfolios. The best efforts standard should account for what information the fund-of-fund can reasonably obtain from underlying managers.

2. Remove upfront allocation disclosure requirement: Delete the requirement in Article 9a(2)(a) to disclose at launch the relative share of underlying products under Articles 7, 8, and 9. Instead, allow funds of funds to commit to target allocations and report actual allocations as the portfolio is built and in periodic reports.

3. Extended transition period: Provide funds of funds with a longer transitional period than other products (at least 12 months longer) because they are dependent on underlying funds' prior implementation of SFDR 2.0 and cannot produce compliant disclosures until underlying fund data is available.

- Background and need for regulation

The Commission's proposal introduces a categorisation system for sustainability-related financial products (Articles 7–9) and a specific transparency rule for products that invest in categorised products (Article 9a). According to the 'new' Art. 4, the new regulation will apply 18 months after its entry into force; for certain insurance and pension products (IBIPs, pension products, pension schemes, PEPPs), Art. 19a provides for an additional transition period of 12 months.

Funds of funds (including UCITS and AIF fund of funds structures) whose investment strategy is based primarily on investments in other funds (target funds) are dependent on the timely categorisation and disclosure of these target funds.

Since Article 9a makes the classification of a fund of funds as a categorised product dependent, among other things, on at least 70% of the investments meeting the criteria of Articles 7, 8 or 9 and the exclusions being complied with, there is an objective sequencing requirement:

A fund of funds can only reliably determine its own category and the associated disclosures once all relevant target funds have published their categorisation and data in accordance with Articles 7–10.

- Proposal for a transitional arrangement for funds of funds

In order to avoid legal and planning uncertainty and to ensure consistent investor information, we propose that Article 19a be supplemented by a special provision for funds of funds.

Article 19a:

Notwithstanding Article 4, sentence 2, an additional transitional period of 12 months after the date of application of this Regulation shall apply to financial products whose investment strategy consists predominantly of investments in other funds ('funds of funds').

Within this period, funds of funds are entitled to make an interim disclosure in accordance with Article 9a(2) instead of the full categorisation in accordance with Articles 7 to 9, which shall include at least:

a) the composition in terms of the relative proportions of already categorised target funds (Articles 7, 8, 9) and target funds not yet categorised,

b) the strategy, the exclusion criteria and the planned phase-in period for reaching the 70% threshold, and

c) the data sources and, where applicable, estimation methods within the meaning of Article 12a.

After the transition period has expired, the fund of funds must carry out the complete categorisation and the relevant disclosures in accordance with Articles 7–11.

During the transition period, Article 13(2) shall apply, with the provison that sustainability-related terms are then prohibited in the name, but clear, fair and non-misleading sustainability claims in marketing communications remain permitted, provided they are consistent with the interim disclosure under paragraph (2).

- Reason

• Systematicity and consistency: Article 9a recognises that products that invest in categorised products have a derived categorisability. Since the data availability is chronologically prior to the target funds, a transitional extension for funds of funds is justified in order to avoid sequencing risks and prevent the factual impossibility of timely categorisation (principle of effectiveness).

• Transparency and investor protection: Interim disclosure pursuant to Art. 9a(2) provides comparable, verifiable information (shares, strategy, exclusions, data sources) until full categorisation is possible. This promotes comparability and minimises greenwashing risks, in line with Art. 10–13.

• Proportionality: The transition extension is specifically limited to products with a fund of funds structure, is temporary and complies with the strict naming rules (Article 13(2–3)). It does not lower material requirements, but rather postpones their full application until reliable data is available.

• Practical feasibility: The approval of the phase in period (cf. Art. 7–9, disclosure of the phase in each case) is explicitly linked to the data and supply chain of a fund of funds. The obligation to provide website transparency (Art. 10) and periodic reporting (Art. 11) remains in place; only the permissible interim content is specified in more detail.

VI. Disclosure Obligations Related to Data and Estimates

Article 12a imposes significant obligations regarding data sources and methodologies. While transparency on data provenance is valuable, the current provisions go beyond what is reasonable or practical for private fund managers.

Concerns with Current Requirements

"Unlimited" information provision: Article 12a(b)(i) effectively creates an open-ended obligation for managers to provide investors with any additional information they may request regarding sustainability-related financial products, over and above the standardised disclosures under Articles 7, 8, 9 and 11. Such an unlimited information right is unprecedented and unworkable in practice: methodologies are often proprietary, significant resources are needed to develop them, and third-party data providers may treat their methodologies as confidential.

"Formalised" documentation requirement: In addition, the requirement for "formalised documented arrangements and methodologies" could be read as extending not only to a manager's own data and estimates but also to information obtained from other financial market participants, for instance in the context of Article 9a products investing in underlying

categorised products. This would create an impractical expectation that all upstream information be underpinned by “formalised documentation” at each level of the investment chain. Deleting the term “formalised” and retaining a clear requirement for “documented” arrangements would be sufficient and more proportionate

Data provider methodology disclosure: Article 12a(b)(ii) requires disclosure of "the methodology used by data providers". Managers typically do not have access to proprietary methodologies used by external data providers and cannot compel their disclosure. Where such methodologies are publicly available, managers can reference where they can be found.

Alternative Approach: Data Provider Transparency

Rather than placing extensive transparency obligations solely on fund managers, the co-legislators should consider proportionate distribution of responsibility throughout the investment value chain. ESG data providers should be subject to transparency requirements regarding their methodologies, data sources, and quality controls. This could be achieved through:

- Extension of the ESG Ratings Regulation to cover data providers
- Incorporation of IOSCO recommendations on ESG data transparency
- A recital recommending further legislative action on data provider transparency.

Recommended Solutions

1. Remove unlimited disclosure obligation: Delete Article 12a(b)(i) requiring provision of any requested information beyond the prescribed disclosures in Articles 7, 8, 9, and 11. The standardized disclosures should be sufficient for investor needs.

2. Remove 'formalised' requirement: Delete "formalised" from Article 12a(a)(i) and (ii), retaining only the requirement for "documented" arrangements and methodologies, which is clearer and sufficient.

3. Limit data provider methodology requirement: In Article 12a(b)(ii), replace "the methodology used by data providers" with "information on where the methodology used by the relevant data provider is publicly available" or, if not publicly available, a statement to that effect. This recognizes that managers cannot compel disclosure of proprietary third-party methodologies.

VII. Transition Period and Implementation Timing

Immediate Relief for Burden Reduction

Article 4 provides an 18-month transitional period after entry into force. While this implementation period is necessary for the new categorization system, certain burden-reducing measures should apply immediately upon the regulation entering into force:

- **Removal of entity-level PAI reporting:** The elimination of Article 4 entity-level PAI disclosures should apply immediately for financial year 2026, providing prompt relief from this significant administrative burden.
- **Abolition of product website disclosures:** The streamlining of disclosure obligations should similarly apply immediately.

- **Scope reductions:** Removal of portfolio management and investment advice from scope should apply immediately to provide regulatory certainty.

Adequate Transition for New Requirements

The 18-month implementation period for the new categorization system is appropriate but requires:

- **Timely Level 2 measures:** Adoption of delegated acts and regulatory technical standards must occur well in advance of the application date to allow managers time to implement systems and processes.
- **Sufficient time for fund structuring:** Managers currently setting up closed-ended funds need adequate time to adapt fund terms to the new regime in investors' best interests.
- **Extended period for funds of funds:** As discussed above in V., funds of funds require a longer transition period (at least 12 months beyond the standard period) as they depend on underlying funds' prior implementation.
- **Ramp-up period for private assets:** The recognition in recital 14 that certain managers and asset classes need time to fully implement investment strategies is welcome. Level 2 measures should specify a suitable ramp-up for alternative and private assets, applicable both to existing funds transitioning to the new regime and new fund launches.
- **Voluntary early adoption:** Firms wishing to apply the revised SFDR before the mandatory application date should have flexibility to do so.

Grandfathering for Closed-Ended Funds

Article 17 provides appropriate grandfathering relief for closed-ended funds "created and distributed" before the application date. However, clarity is needed regarding ongoing compliance obligations:

- **Fully closed funds:** Closed-ended funds that have completed their fundraising and are no longer accepting new investors should be entirely exempt from SFDR 2.0 and should not be required to continue reporting under SFDR 1.0, as these outdated rules will have been superseded.
- **Partially closed funds:** Funds that remain open to additional closings after the application date should benefit from clear, proportionate transitional rules that avoid any disadvantage for existing investors or conflicting obligations.

We welcome the proposed grandfathering relief for closed-ended funds “created and distributed” before the application date. To avoid arbitrary distinctions and unnecessary complexity, **we recommend clarifying that grandfathering should apply to any AIF that is no longer actively offered to new investors (i.e. where fundraising has been completed), irrespective of its legal form.**

VIII. Alignment with MiFID/IDD and PRIIPs

SFDR does not operate in isolation but is closely linked with distribution regimes under MiFID II, the Insurance Distribution Directive (IDD), and PRIIPs. Misalignment between these frameworks creates significant practical challenges.

Urgent Need for MiFID/IDD Review

Recital 27 acknowledges that the MiFID and IDD sustainability preferences regime should be reviewed in light of SFDR 2.0, and that ESAs should conduct consumer testing. However:

- **Explicit mandate required:** The co-legislators should include an explicit mandate for review of MiFID and IDD, not merely acknowledge it in a recital.
- **Synchronized timeline:** Updated MiFID and IDD regimes must apply with the same timeline as revised SFDR to prevent implementation gaps and regulatory uncertainty.
- **Level 1 and Level 2 amendments:** The MiFID sustainability preferences regime will require amendments at both Level 1 and Level 2, not merely consumer testing.
- **Interim relief:** Until the MiFID/IDD review is complete, appropriate reliefs must be in place to address the disconnect between SFDR 2.0 categories and current sustainability preferences framework.

Recognition of Non-SFDR Sustainable Products

A fundamental scope issue must be addressed: certain financial products capable of meeting sustainability preferences are outside SFDR's scope. The revised MiFID and IDD regime should:

- **Integrate SFDR categorization:** Use SFDR categories where applicable for defining target markets and meeting client sustainability preferences.
- **Allow for non-SFDR products:** Recognize that products outside SFDR scope (such as structured products, bonds, equities, and other instruments subject to MiFID but not SFDR) may still be suitable for meeting sustainability preferences.
- **Avoid creating false hierarchy:** Ensure that limiting sustainability preferences solely to SFDR categories does not create a false perception that SFDR is the only "benchmark" for sustainable products.

A recital should clarify that beyond SFDR products, other financial instruments may be considered suitable to meet sustainability preferences as defined in MiFID/IDD and therefore eligible for inclusion in sustainability-related disclosures in PRIIPs KIDs.

IX. Technical Refinements and Clarifications

Combining Criteria from Multiple Categories

Article 7(2)(f) and Article 8(2)(d) allow combining investments from multiple categories but create an unintended inconsistency:

- Article 7 products combining with Article 9 investments cannot use the Article 7(2)(e) sweep-up provision but can use Article 9(2)(g)

- Article 8 products combining with Article 7 and/or Article 9 investments cannot use Article 8(2)(e) but can use sweep-up provisions from Articles 7(2)(e) and 9(2)(g)

This appears unintentional and should be corrected to allow use of all relevant sweep-up provisions when combining categories.

Use-of-Proceeds Bonds and EUGBS

The treatment of use-of-proceeds (UoP) bonds requires clarification and adjustment:

- **Recognize market standards:** All UoP green and sustainable bonds aligned with credible market standards (e.g., ICMA Green Bond Principles) should be eligible for sustainable and transition categories, not only EU Green Bond Standard (EUGBS) compliant bonds. The robust market for UoP bonds using internationally recognized standards would broaden the investment universe for European sustainable funds and strengthen global interoperability.
- **Clarify EUGBS with transitional activities:** When an EUGBS is issued fully or partially with qualifying transitional activities under the EU Taxonomy, clarify whether it qualifies for Article 7 (Transition) or Article 9 (Sustainable), or potentially both.
- **Correct unintended exclusion discrepancy:** Article 7(1)(c) exclusions currently apply at entity-level to UoP bonds (including EUGBS) under the Transition category, while Article 9 partially disapplies entity-level exclusions for UoP bonds. This creates a stricter regime for the Transition category than the Sustainable category, which appears unintended and must be corrected. At minimum, exclusions should not apply at entity-level to UoP bonds in the Transition category.
- **Include sustainability-linked instruments:** Sustainability-linked bonds issued by Sovereign, Supranational, and Agency (SSA) issuers should be eligible for the Article 7 Transition category, as they incentivize issuers to decarbonize over time.

PAB/CTB Safe Harbours and Alignment

Articles 7(1) and 9(1) create "safe harbours" for products tracking Paris-Aligned Benchmarks (PAB) and Climate Transition Benchmarks (CTB), automatically qualifying them for Article 9 and Article 7 respectively without needing to meet additional criteria. However:

- **Inconsistent exclusions:** Products not tracking CTB/PAB face different exclusions in Articles 7(1)(c) and 9(1)(c) compared to the exclusions in Article 12(1) of the Benchmarks Regulation. This creates regulatory fragmentation and confusion. Harmonizing SFDR exclusions with BMR exclusions would provide clearer guidance and more predictable implementation.
- **Forward-looking transition finance:** From a transition finance perspective, focusing exclusions solely on companies' present business models without considering forward-looking transition pathways is counterproductive. Effective transition finance should focus on future-oriented criteria, such as lack of credible phase-out plans, rather than current revenue thresholds.
- **Materiality threshold for financial institutions:** If exclusions beyond BMR standards are retained, a concept of materiality should be introduced for financial institutions. For example, if a financial institution provides very limited financing to fossil fuels, this

should not automatically disqualify it from Transition or Sustainable labels provided other criteria are met.

Taxonomy Safe Harbour for Article 7

The 15% EU Taxonomy alignment threshold for automatic qualification under Article 7 should reference transitional activities. Currently:

- Article 7(2)(b) (for the 70% threshold) expressly accommodates Taxonomy transitional activities and eligible activities becoming aligned
- The 15% safe harbour threshold does not reference transitional activities
- There is no clear rationale for this inconsistency.

The 15% Taxonomy alignment threshold for Article 7 should be modified to include transitional activities as described in Article 7(2)(b), making it significantly more workable for transition products.

X. Coherence with Broader EU Sustainable Finance Framework

ESMA Fund Names Guidelines

The ESMA Fund Names Guidelines should be withdrawn once SFDR 2.0 comes into effect and replaced by Article 13. The Guidelines:

- Were developed based on the SFDR 1.0 framework, including concepts that no longer exist in SFDR 2.0
- Reference Articles in UCITS and AIFMD that have been modified or no longer exist
- Are superseded by the comprehensive naming rules in Article 13 of SFDR 2.0

A recital in SFDR 2.0 should invite ESMA to withdraw the Guidelines upon the application date of the revised regulation.

Alignment with CSRD and EU Taxonomy

We support the Commission's efforts to reduce duplication between SFDR, the Corporate Sustainability Reporting Directive (CSRD), and the EU Taxonomy. In particular:

- **Removal of entity-level disclosures:** Eliminating duplicative entity-level reporting between CSRD and SFDR appropriately focuses SFDR on product-level transparency relevant to investors.
- **Streamlined Taxonomy requirements:** Tying Taxonomy reporting to products with environmental objectives under Articles 7 and 9 is logical and proportionate.
- **PAI alignment with ESRS:** Product-level PAI indicators should be linked to datapoints reported under revised European Sustainability Reporting Standards (ESRS) and the Commission's voluntary sustainability reporting standard for SMEs. This alignment would improve data availability and consistency.

Conclusion

The BAI strongly supports the Commission's objective to make SFDR more focused,

transparent and practicable, and welcomes in particular the move to a product-based categorisation framework (including the impact add-ons), the removal of entity-level PAI reporting and the streamlining of disclosure obligations. To ensure that SFDR 2.0 fully delivers on these objectives for private markets and alternative investments, several targeted adjustments are essential.

First, funds marketed exclusively to professional and comparable semi-professional investors should benefit from a dedicated carve-out or opt-in regime, and the restrictions in Articles 6a and 13 should not apply to communications directed solely at these investors, save for the rules on product names.

Second, Article 6a needs to be recalibrated to avoid de facto "greenhushing": replacing the rigid "central element" test with a clear disclaimer, clarifying key concepts through Level-2 guidance and explicitly permitting voluntary, non-promotional sustainability reporting for Article 6 and 6a products would preserve category integrity while maintaining meaningful transparency.

Third, the category criteria – especially for Article 8 – should be adapted to recognise engagement-based strategies and the realities of illiquid assets, including a more proportionate, best-efforts approach to exclusions, a more nuanced treatment of coal and lignite, and a stand-alone, SFDR-specific definition of UNGC/OECD violations. Clear and well-defined rules for the calculation of the 70% threshold, taking into account the specificities of private markets, should be established for calculation clarity.

Fourth, funds of funds require a tailored solution: a best-efforts standard for exclusions, removal of impractical upfront allocation disclosures and a specific transitional regime that reflects their dependence on underlying funds' categorisation and data.

Finally, the new framework should be accompanied by immediate application of burden-reducing measures, a clear and broader grandfathering concept for funds no longer actively marketed, and proportionate transparency obligations on ESG data providers alongside managers. With these adjustments, SFDR 2.0 can provide a robust, coherent and globally competitive regime that leverages the strengths of private capital for the EU's sustainability transition without imposing unnecessary barriers or complexity.

These amendments would ensure that SFDR 2.0 effectively captures the full spectrum of sustainable investment approaches in private markets, supports innovation in sustainability strategies, provides meaningful transparency to investors without imposing disproportionate burdens, and maintains Europe's competitiveness in attracting global capital to finance the transition to a sustainable economy.

We appreciate the opportunity to provide input on this important legislative initiative and stand ready to engage further with the co-legislators as the legislative process progresses and with the Commission regarding Level II.

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